

## DOMINICAN REPUBLIC

### 1. General trends

Having overcome the effects of the pandemic, the Dominican economy has posted one of the highest growth rates in the region. In 2021, its gross domestic product (GDP) grew by 12.3% in real terms and by 11.3% per capita, fuelled by burgeoning external demand, increased remittance flows and the recovery of domestic demand following the lifting of restrictions imposed to deal with the pandemic.

In 2021, the central government recorded a financial deficit of 3.2% of GDP (7.9% in 2020), while the primary balance posted a surplus of 0.2% of GDP (compared to a deficit of 4.7% in 2020). This was due, in particular, to a larger revenue intake, resulting from economic growth and the administrative measures that had been implemented.

The current account recorded a deficit of US\$ 2.689 billion in 2021, equivalent to 3.1% of GDP (following a deficit of 1.7% in 2020). This resulted from imports outpacing exports and the rise in commodity prices, especially oil, on international markets.

The year-on-year inflation rate (December–December) stood at 8.5% in 2021, which was higher than in the previous year (5.6%) and exceeded the target range of 4.0% (with a tolerance of  $\pm 1$  percentage point) set by the central bank. The rebound in domestic demand and the rise in international commodity prices, especially for food and energy products, explain this uptick. The open unemployment rate fell from 8.0% to 7.1% between the first and fourth quarters of 2021. Despite this recovery in the labour market, real incomes have not yet regained their pre-pandemic levels, and informality remains a key factor.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects Dominican GDP to resume its growth trend and rise by 5.3% in 2022. Economic activity should be boosted by the recovery of tourism-related activities, as infections from coronavirus disease (COVID-19) and its variants wane, and exports of goods and foreign direct investment (FDI) flows pick up. However, there are risks that could undermine these expectations, such as a sharp slowdown in the global economy, particularly in the Dominican Republic's main trading partner, the United States, and the persistence of inflationary pressures.

### 2. Economic policy

#### a) Fiscal policy

Having shrunk by 7.2% in the previous year, total central government income grew by 22.9% in real terms in 2021 to reach 17.0% of GDP —up from 14.4% in 2019 and 14.2% in 2020. This expansion originated in the recovery of domestic demand and administrative measures to improve tax management and revenue collection. These included the adoption of Laws 46-20 and 07-21, which created a special regime for taxpayers to declare or revalue their assets or claims and pay the corresponding taxes.

Both direct and indirect taxes generated higher revenue. Taxes on goods and services grew by 28.2% in 2021 to account for 51.1% of central government income in that year. Social contributions also increased by 18.8% in real terms. Revenue from property taxes increased by 62.1% in real terms, albeit representing a smaller share of total income.

Following the expiry of some of the social protection programmes implemented during the pandemic, central government expenditures decreased by 8.1% in real terms in 2021, following growth of 28.7% in the previous year.

Total public debt (domestic and external) grew by 6.84% to US\$ 47.674 billion in 2021, compared to the year-earlier US\$ 44.622 billion. This represented 55.26% of GDP, compared to 56.60% in 2020 and 40.41% in 2019. The large variation in these figures is explained mainly by the economic effects of the pandemic. External debt, which represents 69.9% of the total public debt, grew by 8.6% to reach US\$ 33.343 billion in 2021 or 38.6% of GDP, compared to US\$ 30.703 billion in the previous year. Domestic debt, meanwhile, increased by US\$ 411 million or 2.95% to US\$ 14.33 billion (16.6% of GDP). In 2021, US\$ 1.362 billion was paid in interest on domestic debt (5.7% more than in 2020) and US\$ 1.664 billion in interest on external debt (19.4% more).

In the first four months of 2022, central government income was up by 6.2% in real terms year-on-year. There were significant increases in revenue from taxes on trade and international transactions and also in social contributions. Revenue from taxes on goods and services, which in April 2022 accounted for 53.8% of central government income, grew by 14.3% in real terms relative to the year-earlier period. From January to April, public expenditure increased by 4.1% in real terms year-on-year. Subsidies increased by 121% in real terms, particularly in the energy, fuel and food sectors, to mitigate the significant rise in prices.

In the first quarter of 2022, the Dominican Republic's external debt reached US\$ 36.393 billion and domestic debt US\$ 14.111 billion (US\$ 50.504 billion in total). In the same period, interest payments amounted to US\$ 482 million on the domestic component and US\$ 630 million on the external debt.

## **b) Monetary and exchange-rate policy**

The central bank pursued an expansionary monetary policy throughout 2021. In the first 10 months it kept the annual monetary policy rate unchanged at 3.0%, but between November 2021 and January 2022 the monetary authority hiked the policy rate by 200 basis points to 5.0%, in response to growing inflationary pressures.

The average lending rate ended 2021 at 9.22%, compared to 9.85% a year earlier. The average nominal rate in 2021 was 9.61% per year (3.18% in real terms), compared to 10.98% in 2020 (6.53% in real terms). Deposit rates ended 2021 at 2.31%, compared to 3.1% a year earlier. On an annual average basis, the rate was 2.49% in 2021 (-3.52% in real terms) and 4.65% in 2020 (0.46% in real terms). Between January and December 2021, average deposit rates fell from 2.88% to 2.31%. Between 2020 and 2021, the monetary aggregates (M1, M2 and M3) increased by 20.8%, 15.3% and 13.7%, respectively. Credit to the private sector expanded by 12.8% in 2021 relative to the 2020 level.

Increases of 50 and 100 basis points in March and May 2022, respectively, raised the policy rate to 6.5%. In June, it was hiked again by 75 basis points and in July by another 50 points, bringing it to 7.75%. Average lending rates rose again to 11.35% in May 2022; deposit rates also climbed to 4.9% in April 2022. The monetary aggregates between January and March 2022 were larger than in 2021, albeit growing less rapidly. From January to April 2022, the monetary base expanded by 12% per month on average, suggesting a slower pace of convergence towards pre-pandemic levels.

### **c) Exchange-rate policy**

The nominal exchange rate averaged 57.22 Dominican pesos per dollar in 2021 (57.95 pesos in the first quarter and 56.80 in the fourth), compared to an average of 56.52 pesos in 2020. The currency depreciated by 1.2% in nominal terms and by 1.38% in real terms.

International reserves grew to US\$ 13.034 billion in 2021, up by 21.2% relative to the previous year's level. This level of reserves covers 6.6 months of goods imports and 14.0% of nominal GDP. The increase was due, among other factors, to the allocation of 457.6 million Special Drawing Rights (SDR) in August 2021, equivalent to US\$ 649 million, which was intended to strengthen international reserves. Increased remittance flows have also strengthened the reserves of the Central Bank of the Dominican Republic. Free trade zones and tourism are also important sources of foreign exchange.

In the first quarter of 2022, the exchange rate stood at 56.58 Dominican pesos per dollar, representing a year-on-year appreciation of 2.6%. On 22 August 2022, the selling exchange rate was at 53.41 pesos per dollar and the buying rate was 53.08. In May 2022, international reserves reached US\$ 14.249 billion, equivalent to six months of goods imports and 13.3% of nominal GDP.

### **d) Other policies**

In October 2021, an agreement was signed for the admission of the Dominican Republic as a full member of the Development Bank of Latin America (CAF). This gives the country access to new sources of financing, technical assistance resources, and expertise. In terms of infrastructure programmes, in late 2021 the Dominican Republic joined the Coalition for Disaster Resilient Infrastructure (CDRI), an initiative led by India and supported by 29 affiliated countries, development banks, business associations and the European Union. The aim of joining the Coalition is to improve building codes and the planning of infrastructure for development, with a view to enhancing sustainability and reducing natural disaster risks.

## **3. The main variables**

### **a) The external sector**

Goods exports from the Dominican Republic increased by 21% in value and by 15.2% in volume terms. The corresponding imports rose more sharply, by 41.1% in value and 21.7% in volume. Exports to the country's main trading partner, the United States, grew by 5.7%.

Despite the reduction in exports of non-monetary gold, mineral exports grew by 7.4% in 2021, driven by sales of copper, ferronickel and other minerals. Agricultural exports increased by 18.6% in 2021, with bananas, which account for 47.7% of total agricultural exports, increasing by 24.4%. Industrial exports expanded by 34.5%, with a significant increase of 414.4% in steel rods. However, in absolute terms, the largest increases occurred in "other industrials" (US\$ 307.8 million) and "aircraft fuels" (US\$ 176.2 million).

Consumer goods imports increased by 34% in value, particularly in the consumer durables sector (43.3%) and medicinal and pharmaceutical products (77.4%); raw materials and intermediate goods imports grew by 65.7%, with increases of 103.7% in the iron and steel foundry sector and 91.8% in oil and fuels, reflecting the rise in international prices; capital goods increased by 17.9%, particularly in the case of goods for industry (40.3%).

Free zones performed strongly in 2021, with growth of 27.4% over the 2020 figures which surpassed the pre-pandemic indices of value added production, driven in particular by growth in the textile and medical-pharmaceutical sectors. In FOB terms, exports grew by 21.8% and imports by 27.4%.

Remittances attained record levels in 2021, totalling US\$ 10.403 billion, equivalent to 11% of GDP and representing a net increase of US\$ 2.183 billion, or 26.6%, relative to 2020. Annual FDI flows were also higher at US\$ 3.102 billion in 2021. The largest flows were in tourism, real estate and mining investments.

At the end of May 2022, the trade deficit stood at US\$ 1.451 billion, representing a year-on-year increase of 53.1%. This reflected a significant 26% increase in imports, mainly due to the rise in raw material prices on international markets. Exports also expanded, albeit more slowly, and were up by 0.9% from January to March compared to the year-earlier period, driven particularly by 10.9% growth in exports from free trade zones.

In June 2022, remittances were 7.6% lower than a year earlier, although growth rates in 2021 were historically high. The cumulative amount in 2022 is not expected to exceed the figure for 2021, a year in which massive aid programmes were deployed to mitigate the impacts of the pandemic, especially in the United States.

## **b) Economic activity**

In the first quarter of 2021, GDP exhibited year-on-year growth of 3.1%, having flatlined in the year-earlier period. The second quarter saw the largest year-on-year increase (25.4%), owing mainly to the statistical base effect (in 2020 it had suffered a contraction of 16.9%). Strong growth continued in the third and fourth quarters of 2021 (11.5% and 11.2%, respectively).

By sector, agriculture expanded by 2.6% in 2021 and manufacturing grew by 16.5%, driven by two subsectors: construction (23.4%) and free zone manufacturing (20.3%). Services expanded by 9.9%, thanks particularly to recovery in the hotels, bars and restaurants sector, which grew by 39.5% in 2021 following a 47.5% contraction in 2020 owing to the pandemic.

Nearly all GDP components that had contracted in 2020 recovered in 2021. The most prominent items were exports and imports of goods and services, which were up by 36.2% and 24.7%, respectively. Investment grew by 22.1%, private consumption by 6.6%, and public consumption by 0.1%.

In the first six months of 2022, the monthly economic activity indicator (IMAE) displayed an average year-on-year increase of 5.8%. Economic activity still retains momentum from the robust recovery staged in 2021, especially in the latter part of the year when tourism rebounded. In the first quarter of 2022, economic activity was 6.1% higher than in the year-earlier period, with expansions of 2% in agriculture, 2.1% in manufacturing and 7.7% in services (39.3% in hotels, bars and restaurants).

## **c) Prices, wages and employment**

Despite recovery in the labour market, with a reduction in the unemployment rate and a 0.7 percentage point rise in employment, average incomes remain below the pre-pandemic level, and informality remains a key factor. In 2021, average real monthly income was 12,476.4 Dominican pesos (at 2010 prices), down from 14,457.1 pesos in 2019 and 12,608.8 pesos in 2020. In real terms, in 2021 the sharpest fall in average monthly income occurred in the public administration and defence sectors, followed

by health and social assistance. By labour force status, employers or active partners suffered the steepest fall in real average monthly income, followed by government employees.

The open unemployment rate dropped to 7.1% in the fourth quarter of 2021, compared to 7.4% a year earlier. This reflected the combination of an increase in the overall participation rate in 2021 — especially among women, who increased their labour market participation from 49.2% to 53%, between the first and fourth quarters— and a rise in the employment rate.

Inflationary pressures have persisted in the first few months of 2022. In July, year-on-year headline inflation was 9.43%. In the first quarter, the open unemployment rate, at 6.4%, was lower than at the end of 2021; and the employment rate slipped by 0.2 percentage points to 59.4%. Also in the first quarter, average monthly income stood at 12,615.1 Dominican pesos, at constant 2010 prices, which represents growth of 0.9% since the first quarter of 2021. In real terms, the steepest drop in average monthly income in this quarter occurred in the public administration and defence sectors, followed by education. By labour force status, real average monthly income fell most among government employees, followed by employers or active partners, while increasing by 14.7% among domestic employees.

Table 1  
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	4.9	7.1	6.9	6.7	4.7	7.0	5.1	-6.7	12.3
Per capita gross domestic product	3.7	5.8	5.7	5.5	3.5	5.8	4.0	-7.7	11.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.9	2.4	2.3	5.6	5.8	5.5	4.1	2.8	2.6
Mining and quarrying	182.7	25.4	-9.1	25.7	-2.9	-1.3	3.4	-12.5	-0.7
Manufacturing	3.0	5.3	4.4	3.2	2.7	6.2	2.5	-2.3	12.9
Electricity, gas and water	2.1	5.5	-0.5	-1.4	3.7	5.7	7.5	0.4	6.0
Construction	5.2	11.7	17.9	10.5	5.0	11.8	10.4	-10.7	23.4
Wholesale and retail commerce, restaurants and hotels	0.9	7.5	7.7	6.9	4.4	7.0	2.2	-22.8	20.3
Transport, storage and communications	5.0	6.9	5.9	6.4	4.7	6.7	4.0	-6.6	12.1
Financial institutions, insurance, real estate and business services	4.1	5.2	5.0	7.1	4.2	5.3	6.4	5.0	0.9
Community, social and personal services	3.8	6.4	5.5	5.3	2.4	4.4	4.7	-2.9	1.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.6	3.8	5.3	4.8	4.7	4.4	5.4	6.4	7.4
Government consumption	6.3	4.3	6.9	1.9	0.8	2.8	6.3	4.9	0.1
Private consumption	2.2	5.3	6.4	6.0	4.4	5.7	4.6	-3.4	6.6
Gross capital formation	-2.5	9.3	18.9	12.3	-0.3	13.3	8.1	-12.1	22.1
Exports (goods and services)	9.0	8.7	3.1	7.5	4.9	6.1	1.5	-30.3	36.2
Imports (goods and services)	-2.2	4.8	11.0	8.1	-3.0	8.5	5.8	-14.6	24.7
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	22.7	23.1	23.4	23.0	22.5	25.8	26.0	25.4	31.4
National saving	18.6	19.9	21.6	21.9	22.3	24.3	24.7	23.7	28.5
External saving	4.1	3.2	1.8	1.1	0.2	1.5	1.3	1.7	2.9
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-2 568	-2 170	-1 280	-815	-133	-1 322	-1 188	-1 337	-2 688.7
Goods balance	-7 377	-7 374	-7 465	-7 559	-7 600	-9 559	-9 075	-6 803	-11 681.2
Exports, f.o.b.	9 424	9 899	9 442	9 840	10 135	10 638	11 193	10 302	12 462.0
Imports, f.o.b.	16 801	17 273	16 907	17 399	17 734	20 197	20 268	17 105	24 143.2
Services trade balance	3 634	4 084	4 368	4 940	5 550	5 497	5 058	1 391	3 648.9
Income balance	-2 972	-3 247	-2 936	-3 253	-3 794	-3 692	-4 069	-3 825	-4 706.2
Net current transfers	4 148	4 368	4 753	5 058	5 711	6 433	6 898	7 900	10 049.8
Capital and financial balance d/	3 902	2 820	2 051	1 707	861	2 155	2 313	2 632	5 021.9
Net foreign direct investment	1 991	2 209	2 205	2 407	3 571	2 535	3 021	2 560	3 102.1
Other capital movements	1 911	612	-154	-700	-2 710	-381	-708	73	1 919.8
Overall balance	1 334	650	770	892	728	833	1 125	1 295	2 333.2
Variation in reserve assets e/	-1 139	-195	-407	-780	-731	-847	-1 150	-1 963	-2 333.6
Other financing	-195	-455	-363	-112	3	14	24	668	0.4
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	97.3	97.0	105.3	110.0	105.0	100.0	104.5	115.8	104.5
Net resource transfer (millions of dollars)	735	-882	-1 249	-1 659	-2 930	-1 523	-1 732	-525	316.1
Gross external public debt (millions of dollars)	14 919	16 074	16 029	17 567	18 821	21 565	23 383	30 703	33 343.2
Employment g/	<b>Average annual rates</b>								
Labour force participation rate	59.3	59.5	61.8	62.3	62.2	63.6	65.1	60.2	63.0
Open unemployment rate	7.4	6.7	7.3	7.1	5.5	5.7	6.2	5.8	7.4

Table 1 (concluded)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Prices</b>									
<b>Annual percentages</b>									
Variation in consumer prices (December-December)	3.9	1.6	2.3	1.7	4.2	1.2	3.7	5.6	8.5
Variation in nominal exchange rate (annual average)	6.3	4.1	3.5	2.3	3.1	4.4	3.7	10.2	...
Nominal deposit rate h/	6.0	6.7	6.6	7.2	6.8	6.6	6.6	5.2	2.8
Nominal lending rate i/	13.6	13.9	14.9	15.1	13.9	12.5	12.5	11.0	9.6
<b>Central government</b>									
<b>Percentages of GDP</b>									
Total revenue	14.1	14.2	16.6	13.9	14.0	14.2	14.4	14.2	15.6
Tax revenue	13.4	13.3	12.8	12.9	13.0	13.0	13.3	12.4	14.4
Total expenditure	18.7	17.0	16.6	16.9	17.4	16.5	16.7	22.5	18.6
Current expenditure	13.7	14.1	13.3	13.6	13.6	13.4	13.9	18.7	15.8
Interest	2.2	2.4	2.3	2.5	2.5	2.6	2.7	3.2	3.1
Capital expenditure	5.0	2.9	3.3	3.3	3.7	3.1	2.8	3.8	2.8
Primary balance	-2.2	-0.4	2.3	-0.6	-0.5	0.4	0.6	-4.7	0.2
Overall balance	-4.4	-2.8	0.0	-3.1	-3.1	-2.2	-2.2	-7.9	-2.9
Central government public debt	37.2	35.9	34.4	34.5	36.1	36.8	39.6	55.9	50.0
Domestic	13.2	11.6	11.2	11.6	12.5	11.6	13.3	17.0	14.7
External	24.0	24.3	23.3	23.0	23.5	25.2	26.3	38.9	35.3
<b>Money and credit</b>									
<b>Percentages of GDP, end-of-year stocks</b>									
Domestic credit	39.0	39.7	42.7	43.8	43.7	42.5	44.3	48.6	46.1
To the public sector	19.1	18.2	25.7	27.0	22.1	20.5	21.9	24.9	23.9
To the private sector	23.4	25.2	26.0	26.9	27.3	27.2	28.2	30.5	28.0
Others	-3.4	-3.7	-4.0	-4.8	-5.6	-5.3	-5.7	-6.8	-5.8
Monetary base	6.4	6.3	6.9	6.7	6.0	5.7	5.8	7.2	6.7
Money (M1)	8.5	8.3	8.5	8.7	8.9	8.6	9.6	12.7	12.6
M2	26.1	25.8	26.3	26.5	26.9	25.2	25.8	30.7	29.2
Foreign-currency deposits	7.9	7.5	7.8	7.8	7.7	7.9	8.5	12.1	10.9

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2007 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total. New measurements have been used since 2015; the data are not comparable with the previous series.

h/ 90-day fixed-term certificates of deposit, weighted average.

i/ Lending rates in local currency of multiple banks, weighted average.